2004

Municipal Pension Plan Annual Report

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Municipal Pension Plan

2004

Annual Report

January 1, 2004 to December 31, 2004

Municipal
Pension Plan

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Stewardship of Your Pension Plan

THE MUNICIPAL PENSION BOARD OF TRUSTEES IS PLEASED to present the annual report for the fiscal year ending December 31, 2004. The *2004 Municipal Pension Plan Annual Report* is the official report on the state of your pension plan. It contains information that is important for plan members and plan employers to know.

This report gives us an opportunity to welcome new plan members and employers, and to communicate what's happening with your pension plan.

The Municipal Pension Plan continues to grow. The number of active members and the number of retired members have both increased over last year. With 196,175 active, inactive and retired members, our plan is one of the largest in Canada. As we grow, it is important that you are kept informed about the state of the pension plan now, and into the future (and about any changes we are considering).

We continue to seek new ways to make the workings of the Board of Trustees transparent and accessible to everyone. Included in these efforts:

- We now post highlights of our board meetings on our website, along with the bulletins that we issued in 2004.
- Many board policies are posted on the website, including our *Statement of Investment Policies and Procedures*. In 2005, all our policies will be posted on the website.
- Our live web broadcast of the 2004 Annual General Meeting was such a success that you will be able to participate in the 2005 Annual General Meeting from your home computer, if you cannot attend the meeting in Vancouver on October 15. Simply log on to **pensionsbc.ca** and follow the instructions.

Our strategic focus continues to be the long-term financial health of the plan and continuing the high standards of service delivery to plan members and plan employers. It is our responsibility to ensure your pension benefits are secure and waiting for you when you need them. To do this, we are required to perform an actuarial valuation every three years (an actuarial valuation is

Your Pension Plan

an in-depth examination of the plan that takes into consideration many factors, such as the age, gender and life expectancy of plan members).

Our last valuation found that, as of December 31, 2003, the plan has an unfunded liability. This liability is a result of changing economic conditions and declining investment market returns. The *Municipal Pension Plan Joint Trust Agreement* states that the fund cannot carry an unfunded liability, so we announced in 2004 that a rate increase would be required, and in 2005 we formally notified plan members and plan employers of the new rates. Without the rate increase there would not be enough money to pay all future pensions.

We look forward to continuing to work on your behalf, and we want to hear from you. Please contact us at the address on the back of this report if you have comments.

Municipal Pension Board of Trustees

December 31, 2004

Trustees	Alternates	
Kenneth Bayne, Chair	Vacant	Excluded Employees
Sharon Saunders, Vice Chair	Andy Wiebe	British Columbia Nurses' Union
Dennis Blatchford	Vacant	Health Sciences Association of British Columbia
Brendan Dick	Kelly Knox	Hospital Employees' Union
Harold Heyming	Mark Schulz	British Columbia Professional Fire Fighters' Association and British Columbia Federation of Police Officers
Barbara Ingamells	Richard Taylor	Union of British Columbia Municipalities
Gary Johnson	Donisa Bernardo	Municipal Employees' Pension Committee
John Johnston	Patrick Doyle	Health Employers Association of British Columbia
Frank Leonard	Wayne Dahlen	Union of British Columbia Municipalities
Louise Mercer	Bruce Kennedy	Provincial Government
Brian Northam	Brian McConville	Council of Joint Organizations and Unions
Steven Polak	Fran Macdonnell	Municipal Employees' Pension Committee (retired plan member)
Joe Strain	Terry Killough	British Columbia Public School Employers' Association
Lyn Vandermey	Gary Moser	Health Employers Association of British Columbia
Maria Wahl	Barry O'Neill	Canadian Union of Public Employees, British Columbia Division
Hilary Woodward	Barbara Reuther	Provincial Government

Partners, Trustees & Agents

THE MUNICIPAL PENSION PLAN IS GOVERNED BY REPRESENTATIVES of both plan members and plan employers. These representatives make up the board of trustees. The trustees are appointed by the **plan partners** (the provincial government, the Union of British Columbia Municipalities, the Municipal Employees' Pension Committee) and other stakeholders. This shared management is called joint trusteeship. More information on joint trusteeship is on the plan website at **pensionsbc.ca**.

The **Municipal Pension Board of Trustees** is responsible for the management of the pension plan, including the investment of the assets and the administration of the pension plan. The board looks after the best interests of the plan to ensure the funds are sufficient to pay pensions into the future. They decide on investment policies and make amendments to the pension plan rules. A plan rule change that results in a contribution rate change must be approved by the partners. If the actuary determines that it's necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees. This is where members are enrolled, contributions are collected, benefits are processed, and where pension payments come from.

The **British Columbia Investment Management Corporation** (bcIMC) provides investment management services as an agent of the board of trustees. The bcIMC is one of the largest institutional investors in the country, offering a wide range of fund management services.

Member Services & Communications

THE MUNICIPAL PENSION PLAN HAS A STRONG TEAM OF professionals devoted to providing quality, cost-effective services to plan members. Staff made impressive gains in service improvements in 2004 that are reflected in the satisfaction rating that plan members gave the Municipal Pension Plan.

The Municipal Pension Plan hosts retirement seminars for plan members. In 2004 fiscal year, 5,261 plan members and their spouses or partners attended retirement seminars. The seminars explain the basics of the pension plan and cover the retirement process from application to receiving pension payments. Past attendees have reported that the retirement seminars are very helpful in planning for retirement. Members who want to learn more about the retirement process can download the presentation from our website at **pensionsbc.ca**.

We regularly conduct surveys of plan members to evaluate the quality of our services and to identify areas for improvement. The surveys show that both active and retired members give staff a high satisfaction rating for service quality. In addition, a survey of recent retirees showed 94% of the respondents were satisfied or very satisfied with the services of the plan.

Communicating with plan members is a priority of the Municipal Pension Board of Trustees. Guidelines have been developed to ensure that plan information is easy to understand and easy to use. By practicing plain language principles and focus testing many of our products, we continue to improve the effectiveness of our communications products.

New communications materials are regularly published, and online products and services are continually being improved. We produce the annual *Member's Benefit Statement*, which provides active plan members with updated information about their plan benefits, service, and contributions. We also produce forms, bulletins, Pensionfacts—a series of fact sheets—and a newsletter for retired members. Plans are under way to produce a yearly report to members that will be launched in 2005. Our website offers excellent pension plan information and online estimators at **pensionsbc.ca**.

The Municipal Pension Plan annual general meeting (AGM) provides members with an opportunity to speak directly to the trustees, and to hear the latest information on pension issues. The third AGM was held in Vancouver on October 2, 2004. The meeting was webcast to Cranbrook, Nanaimo, Nelson, Prince George, Terrace, Vernon and Victoria, and members could log on to the proceedings

Member Services and Communications

from home. Participants responded favorably to the webcast because it allowed them to watch and ask questions from the comfort of their own home. All members and employers are invited to attend the next AGM. The meeting will be held Saturday, October 15, 2005, at Simon Fraser University Harbour Centre Campus, Vancouver, from 9:30 a.m. to 1:00 p.m. To participate in the webcast, log on to the Municipal Pension Plan website at **pensionsbc.ca** and follow the instructions.

Plan Membership

THE MUNICIPAL PENSION PLAN IS COMPOSED OF 196,175 MEMBERS from 599 employers. Membership is open to all eligible employees of a municipality, school district, regional college, the health sector, police and fire fighters, and many other eligible employers. Once an employee elects or qualifies to contribute to the plan, contributions continue until the member terminates employment, retires, or reaches 35 years of pensionable service.

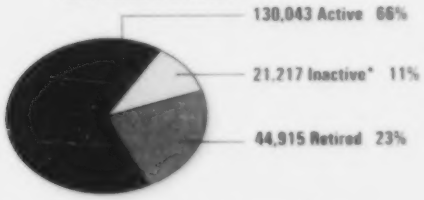
There are three types of members in the Municipal Pension Plan:

- Active—those members who are currently contributing, are on a leave of absence, or are receiving benefits from an approved long-term disability plan. There are 130,043 active plan members.
- Inactive—those members who have terminated their employment, but have left contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Municipal Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by a transfer agreement. There are 21,217 inactive plan members.
- Retired—those who are receiving a pension, including a disability pension. There are now 44,915 retired plan members.

Active membership increased by 1,776 or 1.4% from 2003. This year the number of retired plan members grew by 3,234 or 7.8% from 2003. The total number of retired members is expected to continue to grow in the next decade as more and more baby boomers reach retirement age.

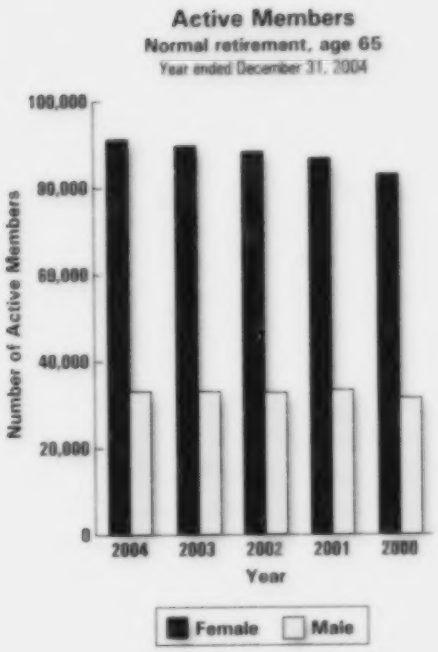
2004 Membership Profile

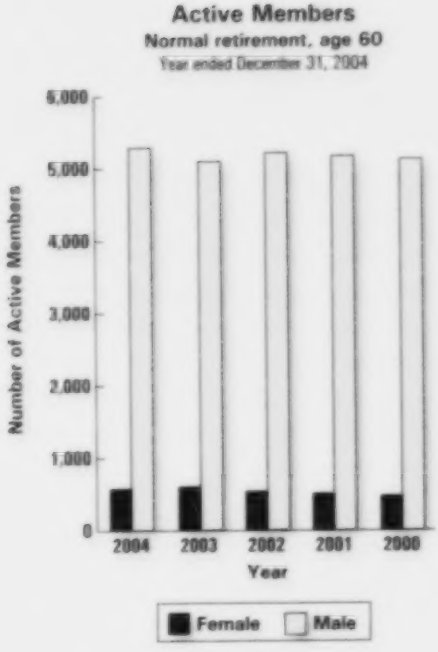
As at December 31, 2004



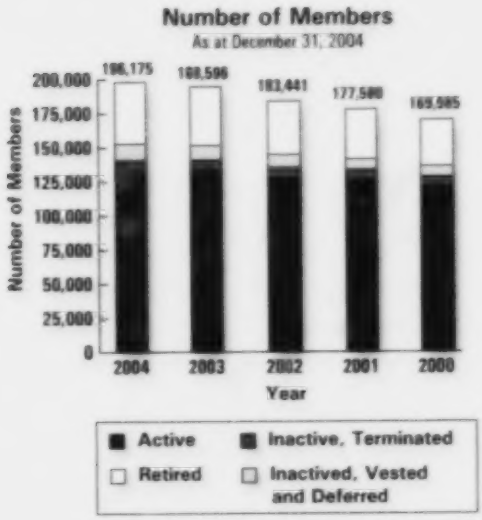
*Members no longer employed, but with money in the plan.

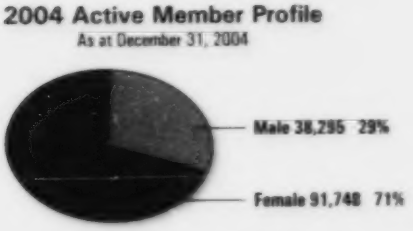
Plan Membership





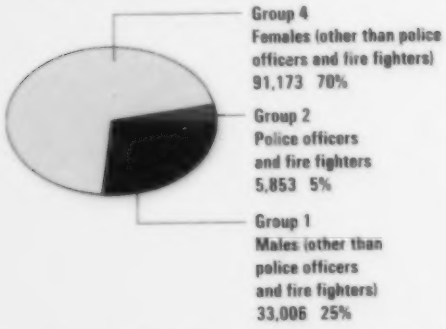
The Municipal Pension Plan serves 196,175 active, inactive and retired members and 599 employers.





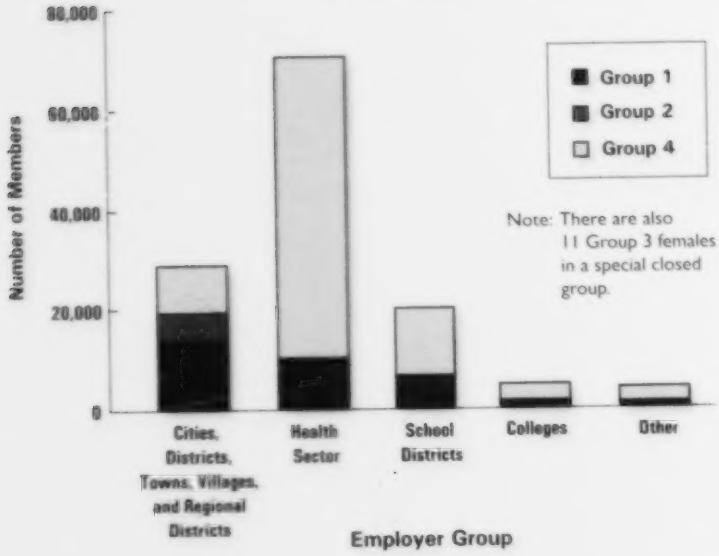
Plan Membership

Active Members by Group

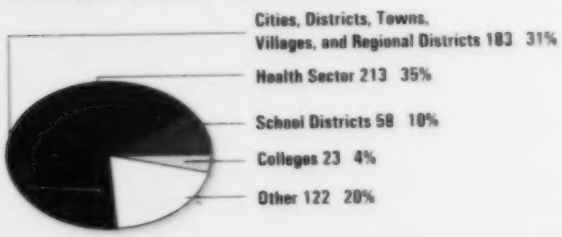


Note: There are also 11 Group 3 females in a special closed group.

Active Members by Employer Group



Municipal Pension Plan Employers


Cities, Districts, Towns, Villages, and Regional Districts 183 31%
Health Sector 213 35%
School Districts 58 10%
Colleges 23 4%
Other 122 20%

Contributions

MEMBERS OF THE MUNICIPAL PENSION PLAN CONTRIBUTE to the plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Employers contribute at varying rates, depending on the mix of active plan members in the group rate classification specified by the plan. The member contribution rates and the employer contribution rates on the next page are applied to pensionable salaries. In 2004, members contributed 6% of salary (6.99% effective July 1, 2005) up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($40,500) and 7.5% of salary (8.49% effective July 1, 2005) above that amount.

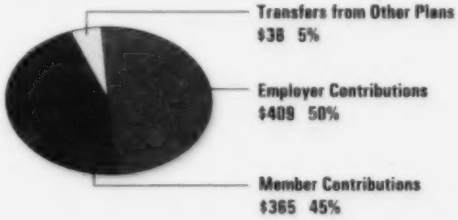
In 2004, we announced that a contribution rate increase would be required in 2005. This increase is required because our last valuation as at December 31, 2003 found that the plan's basic account has an unfunded liability for basic pension benefits of $789 million. This means that there is less money in the plan than is needed to meet the promise of basic pension benefits made to plan members. This unfunded liability is primarily a result of investment returns below the actuary's assumed rate and changes in the assumptions used by the actuary.

The *Municipal Pension Plan Joint Trust Agreement* states that the fund cannot carry an unfunded liability, so we must increase contribution rates by 1.98% of salary, to be split equally between the member and employer. The new rates will increase by 0.99% of salary for plan members and 0.99% of salary for plan employers effective July 1, 2005.

Once a member terminates employment, retires, or reaches 35 years of pensionable service, they no longer contribute.

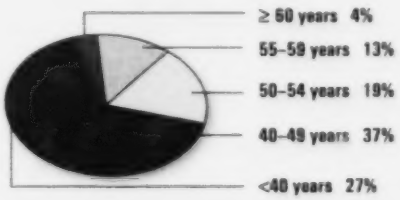
2004 Contribution Revenue

$ Millions

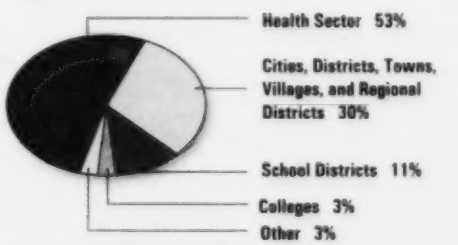


2004 Age Profile of Active Members

As at December 31, 2004



Total Regular Contributions by Employer Sector as a Percentage



Contributions

Employer Contribution Rates by Group and Age*
—salaries less than or equal to YMPE

Group	<45 Years	≥45 Years	<50 Years	≥50 Years
1	n/a	n/a	4.4%	9.3%
2	8.0%	16.5%	n/a	n/a
3	5.1%	10.7%	n/a	n/a
4	n/a	n/a	4.9%	10.3%

Employer Contribution Rates by Group and Age*
—salaries greater than YMPE

Group	<45 Years	≥45 Years**	<50 Years	≥50 Years**
1	n/a	n/a	5.9%	10.8%
2	9.5%	18.0%	n/a	n/a
3	6.6%	12.2 %	n/a	n/a
4	n/a	n/a	6.4%	11.8%

* Effective July 1, 2005, all employer contribution rates will increase by 0.99% of salaries.

** The employer contribution rate doubles when a plan member reaches these ages, after excluding the 1% contribution to the Inflation Adjustment Account.

Group 1: Males other than police officers and fire fighters
Group 2: Police officers and fire fighters
Group 3: Females pre-April 1971
Group 4: Females other than police officers and fire fighters

2004 Average Employer Contribution Rates by Sector

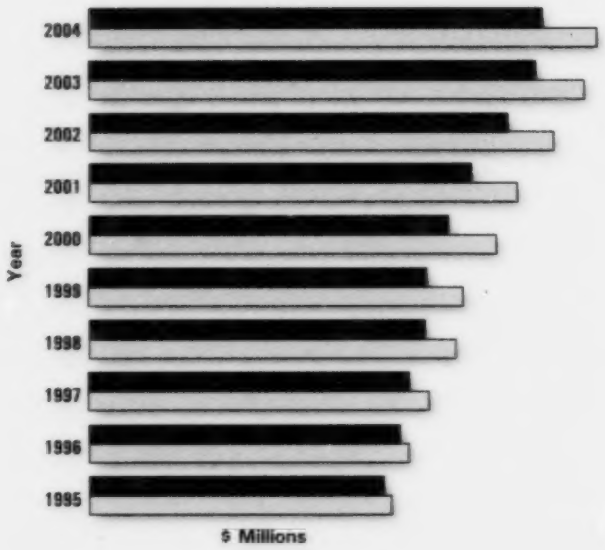
Health Sector	**7.35%**
Cities, Districts, Towns, Villages, and Regional Districts	**7.42%**
School Districts	**7.18%**
Colleges	**6.58%**
Other	**7.23%**

Both plan members and employers pay contributions to fund future pension benefits.

Contributions

Contributions
Year ended December 31
$ Millions

Year	Member	Employer
2004	365	409
2003	360	399
2002	337	374
2001	308	345
2000	289	328
1999	272	302
1998	270	295
1997	258	274
1996	250	257
1995	237	243



Plan Benefits

Pensions

THE MUNICIPAL PENSION PLAN PROVIDES BASIC PENSION benefits that are based on how many years the member made contributions to the plan, the average of the best five years of salary, and the member's age at retirement. The benefits are not tied to financial market conditions. The plan also provides survivor and disability benefits. Members are entitled to a pension benefit after two years of contributory service. Benefits such as group health benefits and inflation protection for the basic pension are not guaranteed, and are contingent on available funding. The board monitors the ability to continue to provide these benefits on an ongoing basis.

Members can access the plan website at **pensionsbc.ca** for information on benefits, and to access the online pension estimator.

If a member retires before age 65, their pension from the Municipal Pension Plan will include a temporary monthly payment called a bridge benefit. The bridge benefit is intended to "bridge" the gap between income before age 65 and income after age 65, when Canada Pension Plan (CPP) benefits typically begin.

Cost-of-living increases to the pension may be provided each year, based on the annual increase in the Consumer Price Index (CPI) as determined by Statistics Canada. This indexing is subject to the availability of funds in the Inflation Adjustment Account and is not guaranteed (See Note 7.b to the Financial Statements). On January 1, 2004, retired members received a full CPI increase of 2.2% (in 2003 the increase was 2.3%).

In 2004, the Municipal Pension Plan provided pensions to 44,915 retired members, an increase of 7.8% over last year.

The table on the following page shows the average asset value ("present value") of pensions issued during 2004. The value represents approximately how much it would cost to purchase an average basic pension provided under the Municipal Pension Plan.

***Basic Pension**—Monthly pension that is paid by the pension plan for a member's lifetime. The pension may continue to another person after the member's death, depending on the form of pension the member chooses at retirement.*

***Bridge Benefit**—A temporary pension paid to the member from retirement until age 65 or death, whichever comes first.*

***Cost-of-living**—Increases to monthly pension amounts are based on the annual increase in the cost-of-living as measured by the Consumer Price Index. Cost-of-living adjustments begin the first January after a member retires. This indexing is not guaranteed.*

Plan Benefits

Average Value of New Regular Pensions
January 1, 2004 to December 31, 2004
(Combination of those whose retirement age was 60 and 65)
Subdivided by years of service

Years of Service*	Number of New Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	481	$45,000	$ 5,600	$ 63,000	$ 30.3
10–14	683	43,000	10,200	120,000	82.0
15–19	507	48,000	15,300	189,000	95.8
20–24	513	48,000	20,000	248,000	127.2
25–29	477	52,000	26,800	345,000	164.6
30–34	351	57,000	34,100	469,000	164.6
≥35 years	62	55,000	35,500	493,000	30.6
Total	**3,074**	**n/a**	**n/a**	**n/a**	**$695.1**
Average of All Pensions	n/a	$48,000	$17,800	$226,000	n/a

* Years of service includes service transferred from other plans.

Pensions 1995–2004

	New Pensions during Year	Pension Terminations	In Force at End of Year	$ Millions Basic Pensions Paid	Inflation Adjustments Paid	Other Pensions Paid	Total
2004	**3,937**	**703**	**44,915**	**495.9**	**96.0**	**1.8**	**593.7**
2003	3,521	772	41,681	434.6	89.0	1.5	525.1
2002	3,307	653	38,932	391.5	82.3	1.2	475.0
2001	2,707	698	36,278	356.2	75.1	0.7	432.0
2000	2,629	636	34,269	325.1	67.9	0.4	393.4
1999	2,652	604	32,276	295.2	61.6	0.3	357.1
1998	2,340	606	30,228	268.4	61.6	0.2	330.2
1997	2,282	502	28,494	245.4	59.1	0.1	304.6
1996	2,080	439	26,714	224.0	57.0	0.1	281.1
1995	1,964	447	25,073	205.6	53.0	0.1	258.7

New Pensions by Type 1995–2004

	Regular*	Death*	LTD to Pension+	Deferred	Total
2004	**3,074**	**72**	**475**	**316**	**3,937**
2003	2,925	52	320	224	3,521
2002	2,647	60	350	250	3,307
2001	2,173	70	301	163	2,707
2000	2,089	80	323	137	2,629
1999	1,992	50	447	163	2,652
1998	1,842	74	243	181	2,340
1997	1,815	47	274	146	2,282
1996	1,670	59	205	146	2,080
1995	1,575	52	200	137	1,964

* New pensions do not include any pension continued to a beneficiary.

\+ Primarily represents members on long term disability who became eligible for a regular pension.

2004 New Regular Pensions by Age at Retirement—Groups 1, 3 and 4*

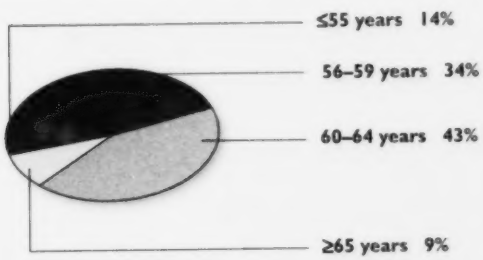
(For those whose normal retirement age was 65 [all plan members except police officers and fire fighters]) Subdivided by years of service and age at retirement

Years of Service	≤55	56–59	60–64	≥65	Total
<10 years	48	126	225	90	489
10–14	104	202	309	61	676
15–19	65	165	240	35	505
20–24	74	165	223	43	505
25–29	66	161	177	23	427
30–34	51	156	65	15	287
≥35 years	17	18	16	4	55
Total	**425**	**993**	**1,255**	**271**	**2,944**

* Average age 60

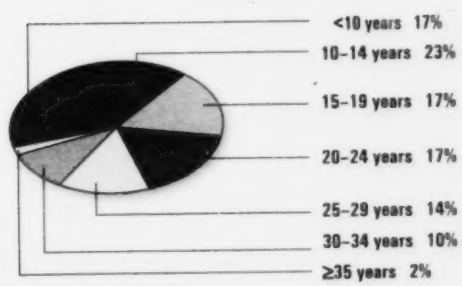
Percentage of 2004 New Regular Pensions – Groups 1, 3, 4

By Age – Normal Retirement, Age 65



Percentage of 2004 New Regular Pensions – Groups 1, 3, 4

By Years of Service – Normal Retirement, Age 65



Plan Benefits

2004 New Regular Pensions by Age at Retirement – Group 2*

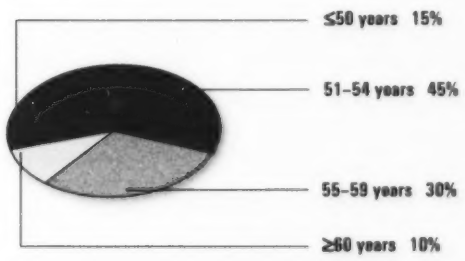
(For those whose normal retirement age was 60 [police officers and fire fighters])
Subdivided by years of service and age at retirement

Years of Service	≤50	51–54	55–59	≥60	Total
< 10 years	–	–	–	1	1
10–14	–	–	–	2	2
15–19	2	–	2	–	4
20–24	–	–	1	1	2
25–29	12	27	13	3	55
30–34	5	32	19	4	60
≥35 years	–	–	4	2	6
Total	**19**	**59**	**39**	**13**	**130**

* Average age 54

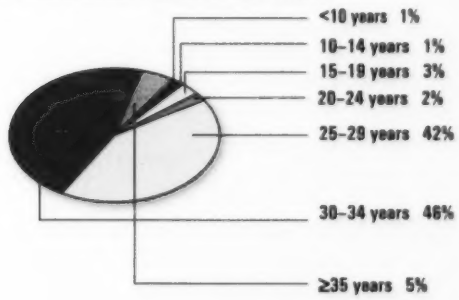
Percentage of 2004 New Regular Pensions – Group 2

By Age – Normal Retirement, Age 60



Percentage of 2004 New Regular Pensions – Group 2

By Years of Service – Normal Retirement, Age 60



Termination and Refund Benefits

A terminating member with two or more years of contributory service, who has not reached the earliest retirement age, may be eligible to choose:

- **A deferred pension**—a pension payable at a later date, either when the member is eligible, or deferred in order to later receive an unreduced pension; or
- **A commuted value payment**—a lump sum that represents the value of benefits earned to the termination date. It is the amount of money that needs to be set aside today, using current interest rates, to provide enough funds at retirement to pay your pension. A commuted value payment must be transferred to a locked-in registered retirement savings plan or a registered pension plan.

A terminating member may also choose to leave funds on deposit in the plan in anticipation of future entitlements. If the member is under 60 with less than two years of service, he or she may also choose a refund of contributions with interest.

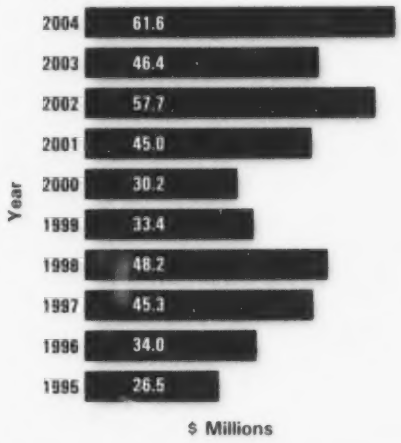
Interest compounds annually and is credited to the member's contribution balance. This amount is included on the annual Member's Benefit Statement. The rate of interest is governed by the applicable pension legislation and is based on average bank five-year personal term deposit rates (2004—2.74%; 2003—3.38%).

The number and value of termination and refund benefits paid can vary from year to year, depending on the employment environment, the type of benefit paid, and the plan member's entitlement. In 2004, the number and value of termination and refund benefits paid increased compared to 2003.

Plan Benefits

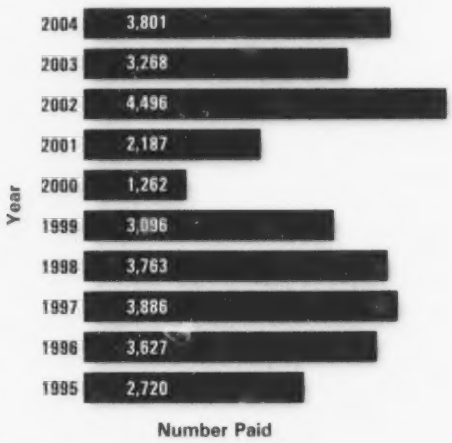
Value of Termination and Refund Benefits Paid

Year ended December 31



Number of Termination and Refund Benefits Paid

Year ended December 31



Benefits paid include only refunds of contributions and commuted value payments; deferred pensions are included in pension statistics

Transferring Service

Transfer agreements allow members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan, at a different place of employment, if the new plan has an agreement with the Municipal Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers." In order to transfer service the member must have left contributions on deposit, or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits. Members of the Municipal Pension Plan who made contributions to other pension plans may want to inquire about transfer agreements.

Under the BC Public Sector Transfer Agreement of April 1, 2004, transfer agreements are in place between the Municipal Pension Plan and the BC public sector plans (College, Teachers', Public Service and Worker's Compensation Board), and other plans that have signed agreements.

In 2004 there were 899 reciprocal transfers-in from other pension plans and 802 transfers-out. The transfers-in totaled approximately $38 million; transfers-out totaled approximately $37 million.

Purchase of Additional Service

Members of the Municipal Pension Plan may be able to increase their future pension benefits by purchasing service. Purchasing service means paying for periods of employment that were not previously counted as service with the pension plan. This service may include:

- leaves of absence (maternity, parental or other leave)
- arrears contributions (not enrolled, but eligible to buy back missed contributions)
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan)

Purchase of service rules changed April 1, 2002. There is a deadline for members to apply to purchase historical periods of service by March 31, 2007 or termination of their current employment (whichever comes first). Beginning April 1, 2007, members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs is available on your plan website at **pensionsbc.ca**.

The deadline for members to apply to purchase historical periods of service is March 31, 2007, or termination of employment with your current employer, whichever comes first.

In 2004, the number of purchases of additional service decreased 18% from 2003. The value of the purchases decreased 10%.

Member and Employer Purchases of Additional Service

Investments

Market Review

ONE OF THE MAJOR ROLES OF THE BOARD OF TRUSTEES AS fiduciary for the plan is the responsibility for overseeing the investment of approximately $18.2 billion in assets, for the long-term benefit of the plan and its members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision-making.

...overseeing the investment of approximately $18.2 billion in assets for the long-term benefit of the plan and its members.

The board of trustees reviews the *Statement of Investment Policies and Procedures* (SIPP) annually, approves the long-term asset mix policy for the investment assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (bonds, equities, real estate), industry sectors, and global markets.

In 2004, world economic growth generally met or exceeded forecasts, while inflation was not a significant concern despite high oil prices. Strong corporate profits, lower long-term interest rates, and lower market volatility gave investors a good year. Canadian equities returns of 15.6% benefited from strong demand for commodities, good fiscal performance by government and a rising dollar. Falling interest rates enhanced bond returns in 2004; however, this also means lower returns from bonds in the future. Bonds earned 7.9% while real return bonds performed at 16.5%. Returns on U.S. investments at 7.3% were dampened by the U.S. dollar's decline against the Canadian dollar, but hedging strategies reduced such U.S. dollar losses by more than $68 million.

The plan's Basic Account recorded a 10.0% annual return on its investment portfolio, slightly below its 2004 benchmark of 10.1%. On a five-year basis, the return for the plan's Basic Account was 4.6%.

Looking forward, one of the biggest challenges facing the board may be meeting our long term goals in a low interest rate environment. However, on the positive side, during the past two years investors have become increasingly confident regarding the economy and financial markets. This has resulted in reduced market volatility and higher-than-expected investment returns. Hopefully this spirit of optimism will carry on in 2005 and the years to come.

Approved Investment Asset Mix

Our diversified investment portfolio focuses on achieving consistent and steady performance over the long term. The board of trustees approves the long-term asset mix policy for the investment assets, and oversees the management of those assets through the British Columbia Investment Management Corporation.

Strategic and short-term asset allocation targets are set within the ranges shown in the table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Basic Account Investment Asset Mix and Performance
December 31, 2004

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark (%)*
Fixed Income	**25–45**			
Short-term	0–5	1.2	3.1	2.3
Mortgages	0–10	4.0	6.7	5.6
Bonds	17–28	24.4	7.9	7.7
Real Return Bonds	0–10	5.1	16.5	17.5
Equity	**55–75**			
Canadian Equities	12–22	20.4	15.6	14.5
U.S. Equities	10–20	15.9	7.3	4.2
International Equities	10–20	16.2	10.5	11.6
Real Estate	8–15	9.9	10.2	6.1
Private Placements	0–10	2.9	**	**

* Benchmarks are standards to compare against actual investment returns.
** Annual rate of return not applicable

Investments

Investment Portfolio

Investments are stated at fair market value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Income from investments represents pooled investment portfolio income attributable to the plan as a unit holder.

For further information on the investment portfolio, visit the bcIMC website at ***www.bcimc.com.***

Investments Held as at December 31, 2004

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	125,609	1
Short-term bonds (1-5 years)	77,248	1
Bonds		
Government	2,878,959	16
Corporate	766,364	4
Long-term	784,402	4
Canadian Equities		
Indexed	2,434,738	13
Actively Managed	1,278,050	7
U.S. Equities		
Indexed	1,013,689	6
Actively Managed	1,874,776	10
International Equities		
Asia	543,208	3
Europe	908,893	5
Europe, Australia and the Far East	1,504,206	8
Real Estate	1,804,862	10
Mortgages	730,313	4
Private Placements	483,254	3
Foreign Currency	21,426	-
Total Pooled Portfolios	**$17,229,997**	**95**
Real Return Bonds	$928,258	5
Total Investments	**$18,158,255**	**100%**
2003 Comparison	$16,473,301	

Investments

Investments Held as at December 31, 2004

(Underlying investments are in pooled portfolios.)

Top 10 Holdings

Canadian Equities

Company	Market Value ($ Thousands)	% of Total Canadian Equities
Manulife Financial	176,114	4.8
Bank of Nova Scotia	169,741	4.6
Royal Bank of Canada	147,919	4.0
Toronto Dominion Bank	136,686	3.7
Encana Corporation	127,076	3.4
Bank of Montreal	101,690	2.8
Canadian Imperial Bank of Commerce	92,870	2.5
Alcan Inc	90,429	2.4
Canadian National Railway	83,419	2.2
Suncor Energy Inc	79,087	2.1
Total Top Ten	**$1,205,031**	**32.5**
Total Canadian Equities	**$3,712,788**	**100.0**

US Equities

Company	Market Value ($ Thousands)	% of Total US Equities
Citigroup Inc	$ 46,171	1.6
Pfizer Inc	34,307	1.2
General Electric	32,557	1.1
Bank of America	32,544	1.1
American International Group	29,556	1.0
Microsoft Corp	26,213	0.9
Exxon Mobil Corp	22,330	0.8
JP Morgan Chase	20,802	0.7
ChevronTexaco	16,921	0.6
Verizon Communication	16,158	0.6
Total Top Ten	**$ 277,559**	**9.6**
Total US Equities	**$ 2,888,465**	**100.0**

International Equities

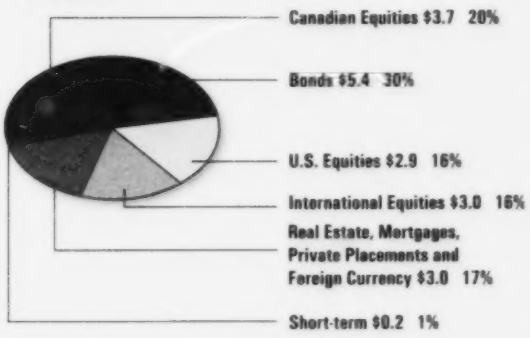
Company	Market Value ($ Thousands)	% of Total International Equities
Vodafone Group	$ 58,293	2.0
Total Fina Elf	52,676	1.7
HSBC Holdings	50,557	1.7
BP	47,054	1.6
Glaxosmithkline	41,277	1.4
Nestle SA	40,029	1.4
Novartis AG	39,183	1.3
Royal Bk Scot GR	39,181	1.3
Roche Holdings AG	35,131	1.2
UBS AG	34,161	1.2
Total Top Ten	**$ 437,542**	**14.8**
Total International Equities	**$ 2,956,307**	**100.0**

Investments

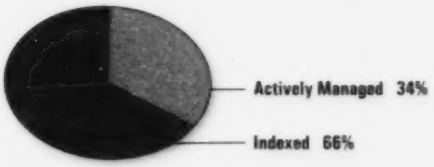
Investments Held as at December 31, 2004

2004 Investment Holdings (Market Value)

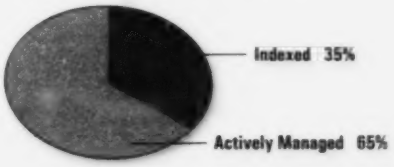
$ Billions


Canadian Equities $3.7 20%
Bonds $5.4 30%
U.S. Equities $2.9 16%
International Equities $3.0 16%
Real Estate, Mortgages, Private Placements and Foreign Currency $3.0 17%
Short-term $0.2 1%

Canadian Equities (Market Value)

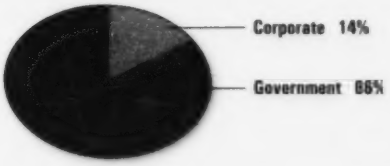


US Equities (Market Value)

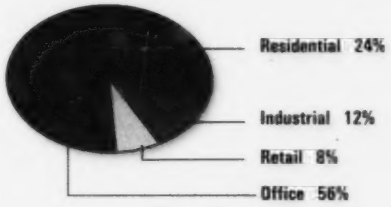


- Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite)
- Actively Managed: A portfolio of securities that is designed to outperform a public market index.

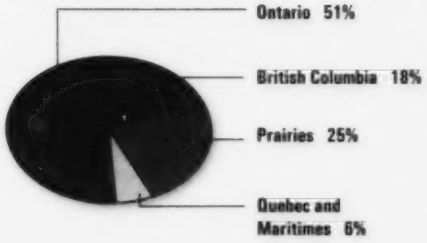
Bonds (Market Value)



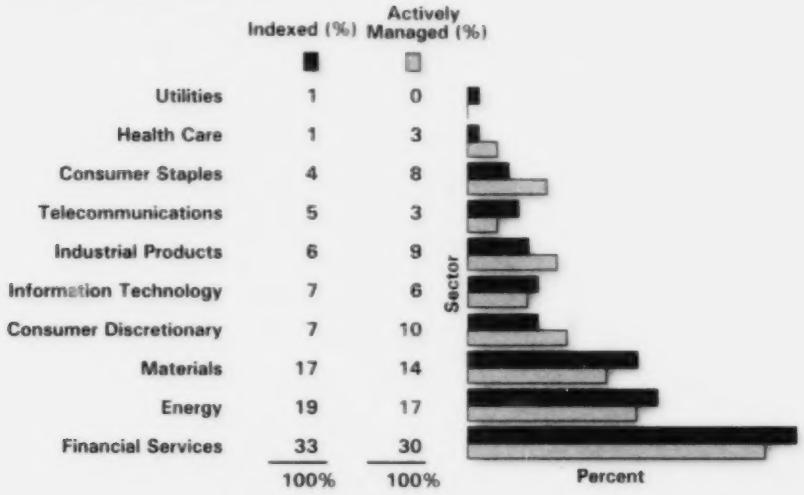
Real Estate, by Type



Real Estate, by Location



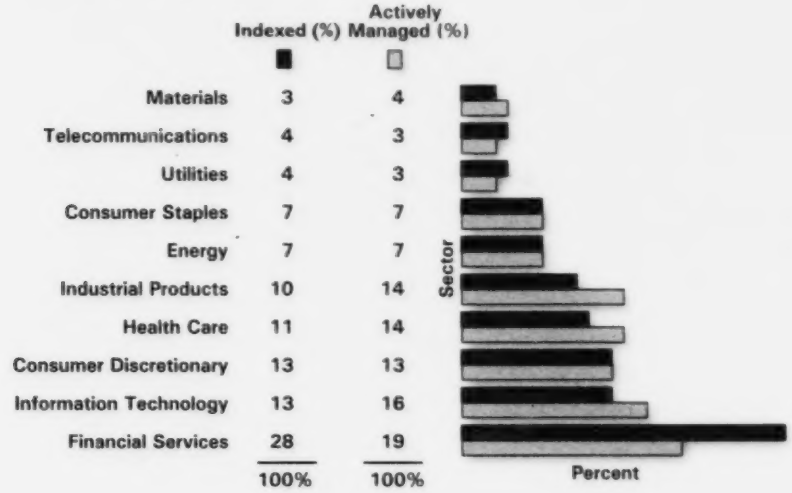
Canadian Equities, by Sector



■ Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite)

□ Actively Managed: A portfolio of securities that is designed to outperform a public market index.

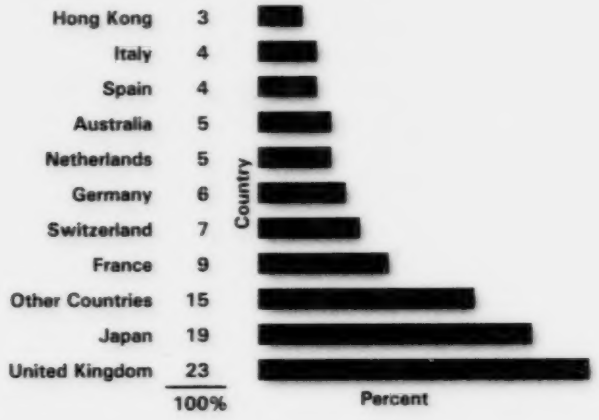
U.S. Equities, by Sector



Investments

Investments Held as at December 31, 2004

International Equities, by Country



Market Value Rates of Return for the Year Ended December 31, 2004

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)*	
Annual Rates				
2004	**10.0**	**10.3**	**10.1**	
2003 Comparison	12.4	13.5	13.6	
2002	-4.6	-3.6	-4.7	
2001	-1.4	-1.8	-3.0	
2000	7.5	7.8	6.2	
Five-year Annualized** Rates+				
2004	**4.6**		**4.2**	
2003 Comparison	5.2		5.1	
Ten-year Annualized** Rates				
2004	**9.0**		**9.1**	
2003 Comparison	7.8		7.9	
2004 Annual Rates by Investment Category				**2004 Performance Benchmark* Indices**
Short-term				
Money Market	2.4	2.4	2.3	SCI 91-Day T-Bill
Bonds	5.1	5.1	4.9	SCI Short-term Government Bond
Bonds				
Government	7.5	7.5	7.1	SCI Government Universe Bond
Corporate	7.1	7.1	7.3	SCI Corporate Universe Bond
Long-term	10.6	10.6	10.2	SCI Government Long Term Bond
Real Return	16.5	17.2	17.5	SCI Real Bond
Canadian Equities				
Actively Managed	16.8	16.8	14.5	S&P/TSX Composite
Indexed	14.9	14.9	14.5	S&P/TSX Composite
U.S. Equities				
Actively Managed	4.3	4.3	3.7	R 1000
Indexed	3.3	3.3	3.3	S&P 500
International Equities				
Asia	9.3	9.3	10.3	MSCI Pacific Net
Europe	10.4	10.3	12.1	MSCI Europe Net
Europe, Australia and the Far East	11.0	10.9	11.5	MSCI Europe, Australasia, Far East Net
Real Estate	10.2	10.2	6.1	CPI + 4%
Mortgages				
Fixed-term	6.9	6.9	6.1	SCI Short-term Bond + 1%
Construction	5.5	5.5	3.9	SCI One-year T-Bill + 1%
Specialty	8.4	8.4	5.5	SCI One-year T-Bill + 2.5%

* Benchmarks are standards to compare against actual investment returns.

** An annualized rate means the rate for a five or ten year period converted into the equivalent annual rate.

\+ The five year annualized rate of the Basic Account is the net earned rate of the fund.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
R	=	Russell
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

Financial Health

ONE OF THE MAJOR ROLES OF THE TRUSTEES IS TO FOCUS on the financial health of the plan. The goal is to achieve consistent and steady performance over the long term. To do this we follow sound investment principles, which direct the fund managers to invest prudently and ethically.

The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

Every three years an independent actuary assesses the financial health of the plan. At the most recent actuarial valuation as at December 31, 2003, the plan had an unfunded liability for basic pension benefits of $789 million. There are two main reasons for this change in actuarial position. First is the lower investment returns experienced by the plan since the 2000 valuation due to the investment climate. Second is a reduced rate of return in the key long-term assumptions used by the actuary in the new valuation. The funded portion of the liability is 96% of the total liabilities for basic pension benefits. On the recommendation of the actuary, the trustees have decided that effective July 1, 2005 a contribution rate increase of 1.98% of salaries will be shared equally between employers and members.

The next valuation will be as at December 31, 2006.

A surplus means there will be more than enough funds to meet the basic benefits, whereas an unfunded liability indicates there is a shortfall between the benefits promised and the assets available to pay for the benefits.

Latest Actuarial Valuation–December 31, 2003

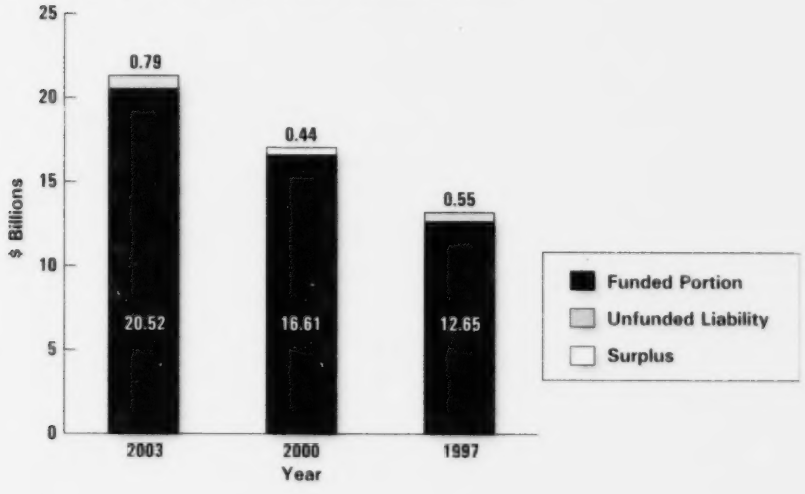
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
	2003	2000	1997
For Funding Purposes*	$(789)	$436	($548)
Ratio of Surplus (Unfunded) Liability to Covered Payroll	(14%)	9%	(14%)
For Accounting Purposes to December 31	$(29)	$847	($297)

* Assuming contributions continue at rates in effect at the valuation date.

See Note 7 and Note 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability



Five-year Financial Summary

Five-year Financial Summary
$ Thousands

For the year ended December 31	2004	2003	2002	2001	2000
Increase (Decrease) in Assets					
Investment Income (Loss)	**$1,686,391**	$1,841,431	$(649,002)	$ (182,933)	$ 1,074,640
Contributions					
Members'	**365,471**	360,200	336,863	308,057	289,345
Employers'	**409,239**	398,707	373,785	345,111	328,169
Transfers from Other Plans	**37,700**	36,880	26,555	17,637	11,748
Total Increase in Assets	**2,498,801**	2,637,218	88,201	487,872	1,703,902
Decrease in Assets					
Pension Benefits	**593,731**	525,142	475,007	432,077	393,437
Termination and Refund Benefits	**61,648**	46,415	57,688	45,002	30,213
Transfers to Other Plans	**37,092**	29,586	58,597	13,614	11,020
Retired Member Group Benefits	**41,391**	52,605	51,003	39,627	34,872
Investment and Administration Costs	**43,108**	41,247	38,904	34,538	30,822
Total Decrease in Assets	**776,970**	694,995	681,199	564,858	500,364
Increase (Decrease) in Net Assets	**1,721,831**	1,942,223	(592,998)	(76,986)	1,203,538
Net Assets Available for Benefits at Beginning of Year	**$16,493,296**	$14,551,073	$15,144,071	$15,221,057	$14,017,519
Net Assets Available for Benefits at End of Year	**$18,215,127**	$16,493,296	$14,551,073	$15,144,071	$15,221,057

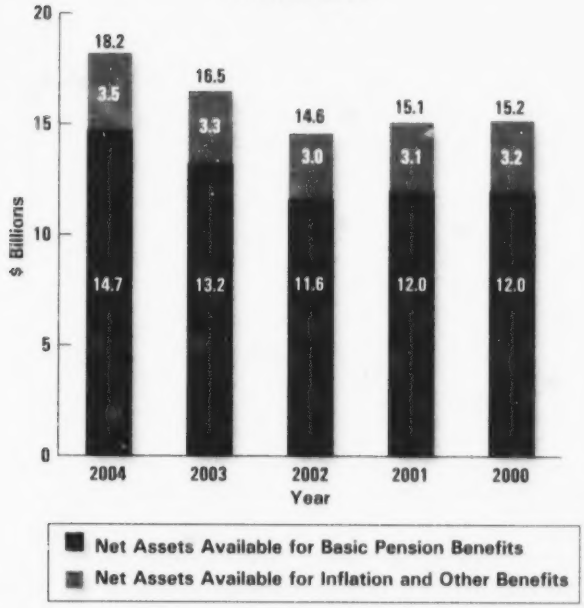
Investment and Administration Costs

	As a Percentage of Net Assets				
Benefit Administration	**0.09%**	0.12%	0.12%	0.10%	0.08%
Investment Management	**0.15%**	0.13%	0.15%	0.13%	0.12%

Five-year Financial Summary

Net Assets Available for Benefits

As at December 31



Financial Statements

PENSION CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-8201
1 800 663-8823
Fax:
250 953-0429

PREMIER'S AWARD

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Municipal Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

SHELDON SCHWARTZ, C.F.A.
Chief Financial Officer
British Columbia Pension Corporation

SANDRA LENZ, C.A.
Director, Finance
British Columbia Pension Corporation

April 8, 2005

Financial Statements

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the statement of net assets available for benefits of the Municipal Pension Plan as at December 31, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

April 8, 2005

KPMG LLP, a Canadian limited liability partnership, is the Canadian member firm of KPMG International, a Swiss cooperative.

Financial Statements

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at December 31, 2004	2004	2003
ASSETS		
Investments (Note 3)	$ 18,158,255	$ 16,473,301
Receivables		
Members' contributions	14,797	14,025
Employers' contributions	15,532	14,367
Accrued investment income	2,380	2,073
Due from sale of investments	34,468	22,000
	$67,177	$52,465
Prepaid expenses	4,267	2,820
Cash	5,733	2,074
Total Assets	$ 18,235,432	$ 16,530,660
LIABILITIES		
Payable for purchase of investments	-	17,200
Accounts payable and accrued expenses	20,305	20,164
Total Liabilities	20,305	37,364
NET ASSETS AVAILABLE FOR BENEFITS	$ 18,215,127	$ 16,493,296

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)
- Contingency (Note 13)

Sharon Saunders
Chair, Municipal Pension Board of Trustees

Brendan Dick
Trustee,
Municipal Pension Board of Trustees

Lyn Vandermey
Trustee,
Municipal Pension Board of Trustees

Financial Statements

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2004	2003
INCREASE IN ASSETS						
Investment income (Note 4)	$ 1,349,890	$ 24,651	$ 311,870	$ -	$ 1,686,591	$ 1,841,451
Contributions (Note 5)						
Members'	300,160	7,945	55,880	1,488	365,471	360,200
Employers'	350,880	9,049	26,562	42,748	409,239	398,707
	651,040	16,992	82,442	44,236	774,710	758,907
Transfers from other plans	27,702	-	9,998	-	37,700	36,880
Total Increase in Assets	2,008,632	41,625	404,310	44,236	2,498,801	2,637,238
DECREASE IN ASSETS						
Pension benefits						
Contributory	495,892	-	-	1,718	497,610	456,096
Indexing supplements	96,049	-	-	72	96,121	89,046
	591,941	-	-	1,790	593,731	525,142
Termination and refund benefits	38,512	1,929	20,850	557	61,648	46,415
Transfers to other plans	26,920	22	10,150		37,092	29,586
Retired member group benefits (Note 10)	-	-	-	41,591	41,591	52,605
Investment & Administration costs (Note 9)	37,749	-	4,861	498	43,108	41,247
Total Decrease in Assets	694,922	1,951	35,861	44,236	776,970	694,995
INCREASE IN NET ASSETS BEFORE TRANSFERS	1,313,710	39,672	368,449	-	1,721,831	1,942,225
Account transfers (Note 6)	126,857	(26,681)	(100,176)	-	-	-
INCREASE IN NET ASSETS	1,440,567	12,991	268,273	-	1,721,831	1,942,225
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	13,226,726	249,690	5,016,880	-	16,495,296	14,551,075
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 14,667,293	$ 262,681	$ 5,285,153	$ -	$ 18,215,127	$ 16,495,296

Supplemental Benefits Accounts (Note 10)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The Municipal Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint Trusteeship was established on April 5, 2001. The ongoing partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the Plan rules.

a) General

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Partners and key stakeholders appoint sixteen trustees representing Plan members and Plan employers. The Chair and the Vice Chair are appointed by the other trustees. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

Financial Statements

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 5.0% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($40,500 in 2004) and 6.5% of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Employers contribute to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Effective July 1, 2005, member and employer contribution rates will each be increased by 0.99% of salaries (Note 7a).

Inflation Adjustment Account
Members contribute 1% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Retirement Annuity Account
Some employers have special agreements with members by which both make extra contributions to increase members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic and the IAA as additional pensions are purchased with the accumulated monies (Note 6).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years).

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

d) Pension Benefits (continued)

Pensionable earnings are based on the member's five-year highest average salary (HAS). The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2004, retired members received a full CPI increase of 2.2% (2003: 2.3%). At January 1, 2005, retired members will receive a full CPI increase of 1.8%.

e) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under 60 with less than two years of contributory service (age 55 for certain groups), may also choose a refund of contributions with interest.

Termination benefits can be accessed one year from the date a terminating member stops contributing or immediately in the case where a terminating member has stopped working in the year before earliest retirement age.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

Financial Statements

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)*, except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan, and does not purport to show whether these assets are adequate to meet the obligations of the Plan.

Certain comparative figures have been reclassified to conform with the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of those assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earning multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards have been transferred).

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are accrued as earned and included as income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair values.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account.

3. INVESTMENTS (FAIR VALUE)

	2004			2003
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 151,351	$ 51,506	$ 202,857	$ 282,961
Canadian Bonds	4,393,803	964,180	5,357,983	4,800,909
Canadian Equities	3,041,396	671,392	3,712,788	3,409,747
U.S. Equities	2,369,101	519,364	2,888,465	2,747,990
International Equities	2,419,376	536,931	2,956,307	2,584,524
Foreign Currency	17,569	3,857	21,426	-
Mortgages	598,350	131,963	730,313	661,538
Real Estate	1,481,375	323,487	1,804,862	1,570,621
Private Placements	411,999	71,255	483,254	415,011
	$14,884,320	$3,273,935	$18,158,255	$16,473,301

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, refer to investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of currency exposure.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

3. INVESTMENTS (FAIR VALUE) (continued)

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC's external real estate investment managers and, at least, once every ten to eighteen months by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or currency rates. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2004: $262.7 million; 2003: $249.7 million).

4. INVESTMENT INCOME

	2004			2003
	Income Allocation	Current Period Change In Fair Value	Total	Total
	($ Thousands)			
Basic Account				
Short-term	$ 6,517	$ (1,086)	$ 5,431	$ 18,676
Canadian Bonds	205,848	163,928	369,776	254,023
Canadian Equities	51,721	372,576	424,297	732,022
U.S. Equities	118,424	40,584	159,008	140,870
International Equities	60,042	171,806	231,848	244,870
Foreign Currency	300	1,130	1,430	-
Mortgages	38,347	(500)	37,847	33,870
Real Estate	64,956	63,895	128,851	92,411
Private Placements	98	15,935	16,033	(35,932)
Investment Income	$546,253	$828,268	$1,374,521	$1,480,810
Less Retirement Annuity Account Income Allocation			(24,631)	(30,966)
Investment Income			$1,349,890	$1,449,844

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

4. INVESTMENT INCOME (continued)

	2004			2003
	Income Allocation	Current Period Change In Fair Value	Total	Total
		($ Thousands)		
Inflation Adjustment Account				
Short-term	$ 1,660	$ (293)	$ 1,367	$ 1,248
Canadian Bonds	44,644	40,357	85,001	71,270
Canadian Equities	11,344	80,930	92,274	166,615
U.S. Equities	26,208	10,611	36,819	27,680
International Equities	13,283	40,011	53,294	64,419
Foreign Currency	66	248	314	-
Mortgages	8,299	(65)	8,234	7,625
Real Estate	14,200	13,953	28,153	21,160
Private Placements	218	6,196	6,414	604
Investment Income	$119,922	$191,948	$ 311,870	$ 360,621
Total Investment Income			$1,686,391	$1,841,431

The income allocation portion of investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account.

5. CONTRIBUTIONS

	2004					2003
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
			($ Thousands)			
Members' contributions						
Regular	$279,469	$ -	$53,024	$ -	$333,981	$325,237
Special agreement	-	7,937	-	-	7,937	7,155
Arrears	1,745	-	233	-	1,978	2,551
Purchase of service	7,561	-	1,482	-	9,043	9,705
Leave of absence	958	6	191	-	1,155	1,463
Reinstatement	10,427	-	950	-	11,377	12,629
Supplemental benefits	-	-	-	1,488	1,488	1,462
	300,160	7,943	55,880	1,488	365,471	360,200
Employers' contributions						
Regular	317,785	-	24,583	-	342,368	342,368
ERIP contributions	112	-	68	-	180	85
Special agreement	-	9,044	-	-	9,044	8,774
Arrears	2,118	-	242	-	2,360	3,121
Purchase of service	9,616	2	1,484	-	11,102	11,857
Leave of absence	1,180	3	180	-	1,363	1,442
Reinstatement	69	-	5	-	74	151
Supplemental benefits	-	-	-	42,748	42,748	53,318
	330,880	9,049	26,562	42,748	409,239	398,707
Total Contributions	$631,040	$16,992	$82,442	$44,236	$774,710	$758,907

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

5. CONTRIBUTIONS (continued)

Member and employer contributions are as defined under the Plan rules.

Member regular Basic Account contributions were $281.0 million, of which $1.5 million was allocated to the Supplemental Benefits Account.

Employer regular Basic Account contributions were $332.1 million, of which $14.3 million was allocated to the Supplemental Benefits Account. Employer regular Inflation Adjustment Account contributions were $53.0 million, of which $28.4 million was allocated to the Supplemental Benefits Account.

6. ACCOUNT TRANSFERS

	2004			2003		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
	($ Thousands)					
Present value of current indexing supplements	$100,416	$ -	$(100,416)	$ 95,257	$ -	$(95,257)
Indexing of deferred pensions	2,807	-	(2,807)	2,465	-	(2,465)
Excess Interest	-	-	-	-	-	-
Pensions purchased from Retirement Annuity Account	23,634	(26,681)	3,047	74,656	(74,656)	-
	$126,857	$(26,681)	$(100,176)	$172,378	$(74,656)	$(97,722)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2004. Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $5.6 billion of assets for 2004 (2003: $4.8 billion). The excess interest rate of return is determined by taking the difference between the actual five-year average market rate of return and the rate of return used by the actuary (7.0%) in valuing the plan's liabilities. The calculated excess interest rate of return for 2004

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

6. ACCOUNT TRANSFERS (continued)

was -2.4% (2003: -2.05%), resulting in a negative excess interest amount of $133.5 million (2003: $98.2 million). The cumulative negative excess interest amount, including interest applied on cumulative excess amounts, is $356.7 million which will be offset against future positive excess interest amounts before positive excess transfers will resume.

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic and the IAA as additional pensions are purchased.

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of the member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2003. This valuation disclosed an unfunded actuarial liability (UAL) for basic pension benefits of $789 million (2000: $436 million surplus), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return — 7.0% (2000: 7.25%)
- annual salary escalation rate — 4.5% (2000: 4.75%)

The main changes between the 2000 and 2003 valuation are as follows:

	($Millions)
Surplus as at December 31, 2000	$ 436
Changes in investment and salary assumptions	(518)
Changes in other assumptions	(174)
Investment income lower than actuarial rate of return	(733)
Interest on surplus	102
Salary increase lower than expected	257
Other actual experience different than expected	(159)
UAL as at December 31, 2003	$ (789)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The next full actuarial valuation will be as at December 31, 2006, for inclusion in the December 31, 2007 financial statements.

Based on the results of the 2003 actuarial valuation, the actuary determined that an increase in contribution rates is necessary for the Plan to maintain its proper financing. Therefore, the Trustees decided that, effective July 1, 2005, member and employer contribution rates will each be increased by 0.99% of salaries, as recommended by the actuary.

The Joint Trust Agreement (Agreement) specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives, in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates and providing specified benefit improvements when sufficient surplus assets allow simultaneous implementation
- 50% of any additional surplus assets must be transferred to a Contribution Rate Stabilization Reserve, and 50 % must be transferred to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA)

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefit costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance, of their possible occurrence, when the IAA assets may cease to grow and therefore, when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members, is paid. Future indexing benefits are not guaranteed within the Plan provisions, and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the net present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all indexing granted to the date of the valuation, but not for, as yet unknown future indexing.

The latest full valuation was made as at December 31, 2003, by Eckler Partners Ltd. The results were as follows:

As at December 31	2003	2000
	(Millions)	
Net assets available for basic pension benefits	$ 13,227	$ 11,992
Five year market value smoothing adjustment	465	(808)
Net actuarial assets for basic pension benefits	13,692	11,184
Liability for accrued basic pension benefits	13,721	10,337
(Unfunded Actuarial Liability – UAL)/Surplus	$ (29)	$ 847

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The next full actuarial valuation will be at December 31, 2006 for inclusion in the December 31, 2007 financial statements.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2004, using the following long-term actuarial assumptions:

- annual investment return 7.0% (2000: 7.25%)
- annual salary escalation rate 4.5% (2000: 4.75%)

On that basis, the extrapolated value of the surplus at December 31 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits	2004	2003
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$14,425	$13,229
December 31, 2003 valuation adjustment	(733)	-
Actuarial assets December 31, 2003 valuation results	13,692	13,229
Account transfers	127	172
Current year contributions	646	634
Net transfers from (to) other plans	1	6
Pension, termination and refund benefits	(633)	(555)
Retired member group benefits	(14)	(13)
Investment and Administration costs	(16)	(19)
Interest accrued on assets	966	971
Extrapolated actuarial assets, end of year	$14,769	$14,425

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits	2004	2003
	($ Millions)	
Extrapolated liability for accrued basic pension benefits, beginning of year	$ 13,454	$ 12,303
December 31, 2003 valuation adjustment	267	-
Liability for accrued basic benefits December 31, 2003 valuation results	13,721	12,303
Account transfers	127	172
Current period benefit cost	699	656
Net transfers from (to) other plans	1	6
Pension, termination and refund benefits	(633)	(555)
Retired member group benefits	(14)	(13)
Investment and Administration costs	(16)	(19)
Interest accrued on liabilities	970	904
Extrapolated liability for accrued basic pension benefits, end of year	$ 14,855	$ 13,454
Extrapolated (UAL)/ Surplus, December 31	**$ (86)**	**$ 971**

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation. For example, the actuarial valuation as at December 31, 2003 resulted in a $29 million actuarial unfunded liability, $1,000 million less than the previously extrapolated actuarial surplus as at December 31, 2003 of $971 million. This difference is primarily as a result of changes in investment and salary assumptions, and actual investment income being lower than the actuarial rate of return.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. INVESTMENT AND ADMINISTRATION COSTS

	2004	2003
	($ Thousands)	
Investment Management	$26,867	$22,234
Benefit Administration	14,715	17,971
Board Secretariat Costs	237	283
Board Remuneration and Expenses	331	372
Other Professional Services	958	387
	$43,108	$41,247

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9. INVESTMENT AND ADMINISTRATION COSTS (continued)

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include the costs for internal and external investment management fees.

Benefit administration costs represent amounts charged by the Pension Corporation for benefit administration services that are approved by the Board. Included in accounts payable is $2.4 million (2003: $5.4 million) due to the Pension Corporation for benefit administration costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional services include actuarial, insurance, audit and legal fees.

10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer basic contributions.

11. COMMITMENTS

The Plan participates in private placement and international equity pools managed by bcIMC. As at December 31, 2004, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $430 million (2003 - $428 million).

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12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of currency risk, interest rate risk, and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on equity markets. Pension liabilities are exposed to long-term market interest rates.

Market Risk
The most important issue for the Plan is long-term investment results. The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Investment risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk
The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

13. CONTINGENCY

The Plan is currently named as a defendant, in conjunction with other defendants in a legal action brought by the British Columbia Nurses' Union and two retired members, in connection with changes to retiree group benefit coverage. This legal action is in its preliminary stages and the Board is not in a position to express an opinion as to the likely outcome of this action.

This is a publication of the Municipal Pension Board of Trustees.
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